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31 August 1960

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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

I. THE COMMUNIST BLOC

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Communist China - North Korea - Japan: Communist China has moved to resume direct trade with Japan, which was broken off in 1958. Chou En-lai, while expressing preference for a government-level trade agreement, [REDACTED]

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[REDACTED] even in the absence of such an agreement, trade can be resumed under contracts between industrial interests, possibly on a long-term basis. [Coincident with the Chinese offer, North Korea has offered iron ore concentrate to Japan as a strong inducement to trade.] The Ikeda government, which has already announced its intention to hold general elections around November, reacted promptly and favorably to Chou's approach. The Ikeda government, like its predecessor, has been seeking a formula for promoting trade with Communist China, North Korea, and other Communist countries without granting diplomatic recognition. [REDACTED]

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II. ASIA-AFRICA

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India-USSR: India's acceptance of a new Soviet credit of about \$125,000,000 brings to about \$500,000,000 the total Soviet commitment to India's Third Five-Year Plan, scheduled to begin in April 1961. The Soviet offer was in response to an Indian request by Finance Minister Desai during his June visit to the USSR, and was apparently granted following an exchange of correspondence between Nehru and Khrushchev in August. Khrushchev also indicated that further aid would be considered later. In making its announcement at this time, New Delhi may have taken into account the meeting of the consortium of Western nations which will be held under World Bank auspices on 12 September to consider aid for India's Third Plan. o K

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DAILY BRIEF

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LATE ITEMS

*Laos Situation as of 0230 EDT: Captain Kong Le has declared the new Souvanna Phouma cabinet, formed on 30 August, to be unsatisfactory, after having previously indicated his approval. Further efforts are being made to induce him to change his mind, but members of the new cabinet are said to consider an attack on Vientiane to be "one solution" should Kong Le remain adamant. Since all of the other major adversaries in the crisis generated by Kong Le's coup seem to have reached a new accommodation, Kong Le appears to be politically isolated. Alliance with the Communist Pathet Lao would seem to be his only alternative to acceptance of the new government. OK

Despite Kong Le's last minute obstructionism, officials in Luang Prabang are going ahead with the confirmation and investiture of the new government. The process should be completed in a day or so. Souvanna's new cabinet is a fusion of the small neutralist cabinet he hastily put together two weeks ago in Vientiane and the countercoup forces of General Phoumi. Although Phoumi was defense minister in the Somsanith regime, he has accepted the lesser post of minister of interior in the new government. With Souvanna acting as his own defense minister and General Ouane as secretary of state for defense, Phoumi's role in army affairs will probably be curtailed. Souvanna presumably remains committed to his program of strict neutrality and peace talks with the Pathet Lao. (Page 5)

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India Accepts Additional Soviet Credit of \$125,000,000

Foreign Minister Desai announced on 30 August that India has accepted a new Soviet credit offer of \$125,000,000, to be allocated for projects under India's Third Five-Year Plan, scheduled to begin in April 1961. This brings to \$500,000,000 the total Soviet commitment to the Third Plan; in addition, India has accepted Third Plan credits amounting to about \$80,000,000 from Poland and Czechoslovakia.

[The latest Soviet offer was in response to an Indian request during Desai's June visit to Moscow and was apparently granted following an exchange of letters between Nehru and Khrushchev during August. Khrushchev is also reported to have indicated to Nehru that while \$125,000,000 was as much as Moscow would offer now, additional assistance would be considered later in the plan.]

[In making its announcement at this time, New Delhi may have taken into account the meeting of the consortium of Western nations which will be held under World Bank auspices from 12 to 14 September to consider India's Third Plan requirements.] The plan, which calls for an outlay of more than \$23 billion, will require about \$5.5 billion in foreign exchange for development projects and debt servicing. India's current foreign exchange reserves--the lowest in the nation's history--will permit no further substantial reductions, thereby forcing New Delhi to rely almost exclusively on external assistance to finance the foreign-exchange component of development costs. []

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Situation in Laos as of 0230 EDT

[Captain Kong Le has declared the new Souvanna Phouma cabinet, formed on 30 August in Vientiane, to be unsatisfactory, after having previously indicated his approval.]

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[Ouane, General Phoumi, and most members of the new cabinet are reported in agreement that an attack on Vientiane is "one solution" if Kong Le remains adamant.]

[Unasmuch as Souvanna, Ouane, Phoumi and the king appear to have reached a new accommodation, reflected in the composition of the new cabinet, Kong Le does seem to be politically isolated. Alliance with the Pathet Lao would appear to be his only alternative to acceptance of the new government.]

[Despite Kong Le's last-minute obstructionism, officials in Luang Prabang are going ahead with the confirmation and investiture of the new government. The process should be completed in a day or so.]

[The new cabinet is essentially a fusion of the eight-man cabinet Souvanna hastily formed in Vientiane two weeks ago and five representatives of the Phoumi group. In addition to the premiership, Souvanna has kept for himself the key foreign affairs and defense portfolios. As interior minister and vice premier, Phoumi will enjoy substantial influence in the new government, but considerably less than he had in the Somsanith government as defense minister. With General Ouane, the armed forces commander, assisting]

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[Souvanna as secretary of state for defense, Phoumi's role in army affairs may be greatly curtailed--a probable concession to Kong Le.]

[The rest of the cabinet is undistinguished. The strongest leftist influence will be Quinim Pholsena, the controversial leader of the left-wing neutralist Santiphab party, who will serve as minister of information. He had been interior minister in the cabinet Souvanna formed in Vientiane.]

[Souvanna presumably remains committed to a program of strict neutrality and a new accommodation with the Communist Pathet Lao. This program accords with his own views on how to stabilize the situation in Laos; it also has been insisted upon by Kong Le and his paratroopers. In addition to personal animosities in the new government, the question of carrying out this program could be a source of serious contention between Souvanna and Phoumi and may eventually lead to a new crisis.]

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